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SUBJECT: AMBASSADOR MEETS WITH SHANGHAI ENTREPRENEURS

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¶1. (SBU) Summary: Shanghai-based Chinese entrepreneurs told the Ambassador that China is looking to U.S. leadership on addressing the problems of global climate change. Ongoing RMB appreciation hurts their export businesses and because China feels it needs to continue to control the flow of capital to avoid a future Asian Financial Crisis, China will be very "cautious" in opening up its financial services sector to further international competition. As China moves upwards on the technology ladder, it increasingly has a stake in protecting intellectual property rights from theft and piracy. China's stock and real estate markets are overheated and this, when combined with inflation and the possible impact of the sub-prime mortgage problem in the United States, has the potential to affect the economies of both the United States and China, the entrepreneurs commented. End summary.

¶2. (SBU) The Ambassador discussed the importance of making progress on resolving our bilateral trade and economic issues, intellectual property (IP) protections, the United States-China Strategic Economic Dialogue (SED), and climate change with Shanghai-based entrepreneurs on September 6. The entrepreneurs addressed the challenges facing Chinese businesses. The meeting was attended by Fosun Group Chairman Guo Guangchang, Suntech Power Chairman Shi Zhengrong, VeriSilicon Holdings CEO Wayne Dai, Grace Semiconductor President Dong Yeshun, and JuneYao Group Chairman Wang Junjin. (Note: Biographic information below. End note.)

U.S. Leadership on Climate Change is Important

13. (SBU) Suntech's Shi said that his company sold USD 1.5 billion worth of photovoltaic (PV) cells in 2006, making it the second largest producer in the world. Suntech is now the second or third largest supplier of PV cells to the United States. Based on its business growth in the United States, Shi said that Suntech plans to open a headquarters in San Francisco later this year.

14. (SBU) Shi said that China and the rest of the world are waiting on the United States for leadership on climate change issues. The United States is the global leader and if it does not appear to be concerned about climate change, then the rest of the world will not be convinced of the urgency of the problem. The Ambassador informed Shi about important steps the United States is taking on climate change and environmental protection issues, including the President's initiatives and Secretary Rice's upcoming September meeting in Washington with

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the countries that together account for some 90 percent of global greenhouse gas emissions.

"Panicked" Over Currency Appreciation

16. (SBU) Grace Semiconductor's Dong asked the Ambassador what the United States hopes for in terms of RMB appreciation. The Ambassador said that the United States looks for greater currency flexibility based on market forces in order to correct the undervaluation of the RMB. Problems surrounding the safety of food and manufactured goods exported from China to the United States and additional recent media stories casting China in a

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negative light make it much more likely that the United States Congress would pass China-related legislation in the near future.

17. (SBU) The Ambassador in turn asked Dong and the other entrepreneurs for their views on the currency situation. Dong admitted that he was "panicked" by the appreciation of the RMB. Since 90 percent of his business is export-based (with 50 percent going to the United States), RMB appreciation affected his bottom line. The unpredictable nature of the appreciation and the fact that his company sourced its raw materials in Japan contributes to the impact of RMB revaluation. Suntech's Shi, on the other hand, said that he had benefited from signing a ten-year USD 6 billion raw materials sourcing contract that stipulated fixed prices in United States dollars.

"China Is Very Cautious" In Opening Up to Competition

18. (SBU) Continuing discussions on the Strategic Economic Dialogue, the Ambassador inquired as to what is the underlying cause to resistance by the Chinese financial services sector to opening up further to international competition. Suntech's Shi said that China is very cautious when opening up to foreign competition. As long as the Chinese Government feels that China's banks can not compete with foreign banks, Chinese officials will "lack comfort" in allowing the foreign banks freer rein. Grace Semiconductor's Dong agreed and added that another underlying issue is control. Chinese officials feel that China survived the Asian Financial Crisis because they had control over the banks and the flow of capital. The Chinese Government did not have confidence in the "competence" of the market to function as a market or in the Chinese financial regulatory regime, and so feel they have to continue controlling the banking sector and the flow of capital in and out of China.

Intellectual Protections "Vital" to High-Tech Industry

¶9. (SBU) VeriSilicon's Dai said that China is becoming an important industry center for the design of information-technology silicon chips. Where in the past companies like Intel and Samsung had designed the chips themselves and relied on Chinese foundries to manufacture them, they are now starting to outsource chip design to companies like his. He said that his company offered "United States technology at a China price." Dai said that his customers' number-one concern was the protection of their intellectual property (IP). Dai noted that other Chinese entrepreneurs are also increasingly concerned about protecting IP as they themselves develop their own name brands and technologies.

¶10. (SBU) In response to a question from the Ambassador on how VeriSilicon addressed the perennial Chinese problem of protecting itself from technology theft by its own employees, Dai said that hiring the right people is important. Furthermore, VeriSilicon reserves part of its engineers' salaries every year in "IP behavior accounts." The money in these accounts is paid to the employees based on how well they perform in protecting intellectual property, by not leaving proprietary papers out on a desk, for example, he said.

¶11. (SBU) Dai said that VeriSilicon has never caused the loss of any of its customers' IP. Pointing to the rigorous protections at his company, he said that Freescale Semiconductor had sent a two-person "red team" that spent two days attempting to break

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into the company. They did not find any vulnerabilities, he said. Concerning the protection of intellectual property, Dai said that the bottom line is: "If no one trusts us, they won't give us any business."

China's Economy: "A Little Overheated"

¶12. (SBU) Fosun's Guo expressed concern that the Chinese economy "is a little overheated." He based his concerns on the bubbles in the stock and real-estate markets combined with ongoing inflation and high GDP growth. He was particularly concerned about the effects that the sub-prime mortgage problems in the United States could have on China. The United States and Chinese economies are so strongly linked that whatever happens to one affects the other, he said.

Visa Processing Time: Improving But Problematic

¶13. (SBU) While noting that things have gotten better over the past year, Grace Semiconductor's Dong said that visa processing delays are a factor limiting United States-China business. He, and others at the meeting, expressed support for a mechanism that rewarded a company's good track record on travel to the United States with an expedited visa interview and issuance process. The Ambassador and Consul General agreed that facilitating legitimate travel to the United States is among our highest priorities and discussed the increased resources that are being deployed to address the increasing demand for visas in China. (Note: From September 2006 through August 2007, Shanghai conoffs adjudicated over 144,000 non-immigrant visa (NIV) applications, making Shanghai the 12th busiest NIV-issuing post in the world. End note.)

JuneYao Airlines Hopes To Buy Boeings

¶14. (SBU) JuneYao's Wang told the Ambassador that the biggest challenge his company faces as China's first private airline is working through China's regulatory process. Started in 2005, the airline began flying in September 2006. While currently

flying four Airbus-produced planes on its 15 domestic-only routes, Wang told the Ambassador that Boeing 787s would be ideal for JuneYao's hoped for expansion into international routes. JuneYao plans to purchase 30 new planes by 2010.

Biographies of Attendees

¶15. (SBU) Dr. Shi Zhengrong, Chief Executive Officer, Suntech Power Holdings. Suntech specializes in the design, development, manufacture and sale of photovoltaic (PV) cells, modules and systems. Dr. Shi is a distinguished PV technology scientist who founded Suntech in 2001. Since then it has developed into a leading solar energy company. In less than three years, Suntech increased its manufacturing capacity twelve-fold, becoming one of the world's top 10 manufacturers of PV cells based on production output according to Photon International, a magazine covering the international PV industry. Suntech was listed on the NYSE at the end of 2005. Shi is said to be the 5th richest man in China with personal wealth valued over USD 2 billion, according to the latest Hurun Survey.

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¶16. (SBU) Guo Guangchang, Chairman and President of Fosun Group. Shanghai-based Fosun is a diversified holding company focusing on real estate, pharmaceuticals, steel and retail properties. Fosun controls more than 100 subsidiaries and 200 affiliates, employing more than 60,000 employees nationwide. Fosun got its start in 1992 when Guo, the son of a stonemason, together with former Fudan classmates, sold a hepatitis testing kit. The 39-year old Guo, according to Forbes Magazine 2005 survey, was the 7th richest individual in China, with assets over USD 1 billion. Guo also has served as a deputy to the National People's Congress and as an advisor to the Shanghai Municipal Government. Guo has been the Chairman of the Zhejiang Chamber of Commerce Shanghai office since 2005.

¶17. (SBU) Wang Junjin, Chairman of Juneyao Group. Wang Junjin was born in 1968 in Zhejiang. After his brother Wang Junjing passed away, Wang Junjin became the Chairman of Juneyao Group. Juneyao was the first private company to invest in the aviation industry. Juneyao Group also has investments in the retail and dairy industries. Its annual sales in 2005 were over USD 500 million.

¶18. (SBU) Dong Yeshun, CEO of Grace Semiconductor. Shanghai-based Grace Semiconductor Manufacturing Corporation produces integrated circuits. Grace Semiconductor is a politically well-connected firm, founded by Jiang Mianheng, the son of former President Jiang Zemin and the son of Y.C. Wang, chairman of Taiwan's largest business group, Formosa Plastics Corp. These connections helped Grace raise significant amounts of startup capital at favorable interest rates. Mr. Dong also serves as Chairman of Shanghai MSN and is on the Board of Metlife China.

¶19. (SBU) Dr. Wayne (Weimin) Dai, Chairman, President and CEO of VeriSilicon Holdings. Founded in 2001, Shanghai-based VeriSilicon Holdings is an ASIC (Application Specific Integrated Circuit) design foundry that provides semiconductor IP, design and manufacturing services to customers worldwide. In July 2007, VeriSilicon raised USD 14.8 million in Series C financing co-led by Austin Ventures and Sierra Ventures. It used the financing to purchase the assets of the ZSP Digital Signal Processor business unit of NYSE-listed Silicon Valley Company LSI Logics for USD 13 million. Dai has a PhD in Electrical Engineering from Berkeley and formerly taught at UC-Santa Cruz.

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